Empirical ways forward towards increasing the contribution of fisheries to African economic growth[i]

Stephen Cunningham[ii] and Nancy Gitonga[iii]

Abstract

This paper, which was given as a keynote address for Africa fisheries policy day, addresses the key issue of how the exploitation of Africa's fish resources can make a greater sustainable contribution to African economic growth. It is estimated that such resources have the potential to deliver annual wealth in the order of US$ 3.8 billion. It is argued that economics has developed a robust qualitative explanation of the problem in terms of fish resource wealth and open access but that this explanation has insufficient influence in policy. The paper suggests how this situation may be improved.

It is an established fact that Africa is fish-resource rich but most nations with this resource are generally cash poor. Why is this? Is this resource a curse or a blessing? Can improved governance change this scenario so that the wealth generated by this resource benefits the people and the States?

When the Governance Working Group (GWG) of the NEPAD Partnership for African Fisheries began its work a few years ago, a key question concerned which dimensions of fisheries governance to address: there were many issues from which to choose. The Group, after some brainstorming sessions, decided that by far the most important issue was how to improve the contribution made by fisheries to the equitable economic growth of African states.

The situation in African fisheries was, and remains, similar to that which exists elsewhere in the world. The key words describing the sector are the usual depressing litany: overfishing, overcapacity, losses, poverty, and so on, not exactly a set of words that attract political attention. But it is here that the science of economics has a message of hope.

Over the past 60 years, fisheries economists have developed a very robust qualitative explanation of why things go wrong in fisheries. This explanation is very well-known to economists but it is not very well-known to policy-makers. Indeed, if one wanted to be provocative, one could argue that the failure of fisheries worldwide is very largely the fault of economists because they have failed to get their message across. In this regard, therefore, it is important to use the IIFET Conference "African fisheries policy day" to begin to put things right.

The key problem is a combination of fish resource wealth and open access. If access to the resource remains free and open, then resource rents will be perceived by fishers as supernormal profits which will drive overexploitation.

It is, of course, the intrinsic value of the resource that will determine whether it is worthwhile exploiting it at all and, if so, the degree to which it will be overexploited. The tragedy (or perhaps one should say another tragedy) is that the more valuable the resource is, the greater will be the degree of overexploitation.

If, and only if, prices and costs allow will this overexploitation become overfishing (in the sense of effort levels being pushed beyond the effort level corresponding to MSY). Incidentally, when the FAO says in its State of Fisheries and Aquaculture that 30% of global fish stocks are “overexploited” what it actually means is that 30% are overfished against an MSY criterion. Again, if one wished to be provocative one could argue that almost 100% of the world’s fish stocks are overexploited from an economic perspective.

But if the situation is so disastrous from an economic perspective where is the message of hope? It comes from the fact that the same resource wealth which serves to destroy the resource represents the pay-off to reversing the process.

We use the term pay-off deliberately because in essence fisheries policy is faced with an investment appraisal problem. There is a need to invest in the fish stock and if this can be done there will be a payoff through the resource rents that can be generated. Economics has had a bit of trouble in packaging this message effectively.

It is almost invariably the case that policy advice is given in terms of the need to reduce fishing effort and fishing capacity. But the real objective is in fact to rebuild the fish stock. The focus on fishing effort reduction has perhaps made economic advice rather less palatable to policy makers. The focus on fishing capacity certainly cost Europeans a lot of money because European policy-makers thought that they could just buy out excess fishing capacity. Sadly and expensively, it took them a long time to learn that they could not.

So what is the payoff? The well-known World Bank and FAO study “Sunken Billions” suggests that it is in the order of US$ 50 billion per annum.

The GWG attempted to undertake a similar exercise for Africa, but rather than adopting the approach used in the Sunken Billions, the Group preferred to use Jim Wilen’s methodology. Sunken Billions concentrates on efficiency effects in production whereas Jim Wilen’s approach includes gains to be expected in the value chain.

Doing the exercise for Africa is difficult first because data on African fish landings are often poor, and second because even if the data were perfect, landings are themselves an imperfect indicator of African fish resources because of catches recorded against non-African fishing nations. So our estimates are almost certainly under-estimates. Nonetheless, the Group estimate that African fish resources have the potential to deliver annual wealth due to cost savings and revenue gains in the order of US$ 3.8 billion.

This is not a small amount of money by any standard and certainly not in the current global economic climate. If it is decided that this is a payoff worth seeking, the question naturally arises of how to achieve it. This is something that the AU/NEPAD with the assistance of the PAF project is currently working on with the development of a proposed Comprehensive African Fisheries Reform Strategy.

In making its contribution to the debate, for the reasons outlined above the Governance Working Group has approached the problem by focussing on the notion of “Wealth-based fisheries management". There is also another important reason for stressing wealth, which is that policy-makers cannot ignore it in policy development. They can choose not to include it in their policy but they cannot wish away its effects. Much of fisheries policy has been undermined because any gains made have been short-lived as rents emerge and push the fishery back towards its open access level.

It is interesting to observe, however, that placing the word "wealth" in the context of fisheries makes some people uneasy. One reason why people may be unhappy about wealth is that they equate this with giving the wealth to the wealthy, although this is certainly not the intention.

In this vein, some recent analyses of small-scale fisheries in Africa (and elsewhere) have gone so far as to suggest that it is a better strategy to forego any wealth leaving the resource open to all-comers because this will reduce the vulnerability of poor communities in times of stress. It is very difficult to believe, however, that open access can actually be the solution to the problem, when 60 years of economic theory and a mountain of empirical evidence clearly establish it as the root cause.

It is difficult to dispute the aim of helping vulnerable people. The question is how best to do it and in particular what is the role of fish resources. Is it best to leave access to the resource free and open and accept that there will be overexploitation, or implement policies that will allow the potential wealth associated with these resources to be generated, thereby increasing the contribution that such resources make to economic growth?

In addressing such difficult questions, economics needs to go beyond efficiency questions. Analyses of New Zealand's ITQ system almost always focus on the efficiency effects. Looking at the value of rights leaves little doubt about the importance of such effects. But it is important to consider also the distribution question. A considerable proportion (about 50%) of the wealth generated by the New Zealand system goes to the iwis (Maori tribes) who use the funds to further the social development of their communities. In this way, a great many people benefit from the fish resource wealth, the vast majority of whom never go near a fishing vessel. It appears that this gives a socially-acceptable distribution of the benefits, which is a crucial point in developing a sustainable management system.

A focus on wealth also brings the fisheries sector into line with other economic sectors. Macroeconomic policy in Africa focuses on GDP as much as it does in developed countries, perhaps more so. Because the GDP contribution of fisheries is often perceived to be very low, fisheries is not considered a priority sector and the budget allocations to improving management may be woefully inadequate. There are two issues to address here:

> First, the way in which GDP is measured tends to underestimate the importance of sustainable fish stocks. In most cases, if a fish stock were to collapse completely the amount of lost GDP would be far greater than expected due to the share of GDP contribution that is attributed to other sectors post-landing.
>
> Second, the GDP contribution is currently a long way from its potential level. If fish resources were exploited in such a way as to generate the potential sustainable wealth, the contribution to GDP would increase greatly. This is key information that needs to be generated to support macroeconomic policy and to ensure that appropriate budgets are made available to improve fishery management systems.

Of course, the Fisheries line Ministry needs to exercise great care when dealing with the Finance Ministry. It is important to get across the message that there is not a sum of resource rent sitting there waiting to be collected. It is necessary first to put into place systems that will generate such rents sustainably. It is equally important to stress that there is not a fixed sum of rent to be generated. Instead a key issue is to design systems that will give the private sector the incentive to develop rents through increased revenue on the one hand and lower costs on the other. Setting resource rentals at too high a level will destroy such incentives.

Bringing the issue of resource wealth to the fore also brings coherence to other dimensions of fisheries policy. For instance, it is very common to find in fisheries policies an objective to increase value addition at the product level. But if we are not interested in wealth, what is the point of such a policy? If we are interested in wealth, then it is a sensible policy, provided that access arrangements have been addressed first. In fact there is a big sequencing problem in fisheries policy that is usually ignored. If product value addition occurs first then the impact will be to drive further increases in effort. If however arrangements are in place to generate rents, then product value addition is a perfectly sensible policy because it will increase the wealth generated from the resource yet further.

Similar considerations arise in the case of IUU fishing. Fisheries policies worldwide are trying to drive out IUU fishing and large amounts are being spent on MCS in the process. However, if domestic fishing arrangements remain free and open access, what is the point? Suppose the policy is successful, overexploitation due to IUU fishing will be transformed into overexploitation due to domestic fishers. There may be some satisfaction in knowing that the overexploitation is being done locally but other than that, not much will be gained. It is quite possible therefore for countries to spend huge amounts on MCS with no impact on overall exploitation levels and without generating any economic gains. For this reason, estimates of the losses made due to IUU fishing should be presented with caution.

After this brief discussion of some important issues, let's return to the title: *empirical ways forward towards increasing the contribution of fisheries to African economic growth.*

You will not be surprised to learn that our first aim is to move fish resource wealth to the centre of fisheries policy, working at two levels. First, at what might be called the macroeconomic level, we suggest working with a range of Ministries especially Finance, Planning, Economy, Poverty Reduction Strategy Programme (PRSP) and similar to build the understanding of the potential contribution that the exploitation of fish resources can make. Second, at the micro level, we suggest working with stakeholders at the fishery level to develop the same understanding and from there to develop appropriate exploitation arrangements that will result in the sustainable generation of resource rents at the primary level and of wealth throughout the value chain.

In doing this we would suggest that it is important to bring small scale fishers inside the tent allocating them rights that are appropriate to the nature of the fishery and to their circumstances. Leaving them outside as a kind of special case is not likely to be in their or anybody else's interest.

In our view fisheries policy has always been about wealth generation. That is why Ministries are interested in product value addition. The difficulty has been achieving wealth generation on a sustainable basis. Economics offers a way to address this problem. The challenge now is to move economic analysis from the journals and into African fisheries policy practice.

The GWG is optimistic that this can be achieved and the work has started with sensitizing workshops for economists, researchers and fisheries managers in various fisheries regions in Africa with a sense of success. It is hoped that capacity in the form of economists who understand wealth-based fisheries management will be built to catalyze the advocacy process on the importance of fisheries in Africa, through the Ministers of Finance and Fisheries. Once the wealth of the fishery is understood by policy makers, they will begin taking the fisheries sector more seriously and view the fish stocks as capital investment or money in the bank with the need to protect the capital and only utilize the interest (the sustainable fish harvests). Such change will give the fisheries sector the image it requires and deserves in order to make a significant contribution to the economic growth of the African countries. If you demolish your house (capital investment) then you should not be surprised that it does not produce income in the form of rent.

The challenge is how to package this knowledge and disseminate it to policy-makers in a simple factual language that will convince them to take necessary and appropriate action. Hopefully the Governance Working Group will use champions, such as Namibia, and others on the list presented by Dr Ola Flaaten to influence other nations to follow similar course. Economists have a critical advocacy role in the paradigm shift in fisheries management towards wealth-based fisheries.

The door is open because the African Ministers of Fisheries and Aquaculture have provided a lead through their decisions made at their first Conference held in 2010, which amongst other things urged African States to shift their fisheries management towards wealth-based fisheries.

Endnotes

[i] This publication was made possible through the support of the NEPAD Planning and Coordinating Agency (NPCA). Both of the authors are members of the Governance Working Group of the NEPAD Partnership for African Fisheries (PAF). A slightly-modified version of the paper was delivered by Nancy Gitonga as a keynote address for the African fisheries policy day.

[ii] IDDRA, Endeavour Quay, Gosport, Hants PO12 1AH, UK - cunningham@iddra.org

[iii] FishAfrica, PO Box 64358-00620, Nairobi, Kenya - n.gitonga@fishafrica.co.ke